

# NCUA News

## First Quarter '98 Assets and Savings Outpace '97

Assets at the nation's 1,348 credit unions over \$50 million grew 4.2 percent during the first quarter of 1998 and savings rose 4.1 percent, slightly outpacing first quarter 1997 figures.

Large credit unions represent 12 percent of all federally insured credit unions and 75 percent of all federally insured credit union assets. First quarter call reports submitted by these credit unions provide the following key data and ratios —

- Membership grew 1.2 percent, increasing from 46,808,880 to 47,361,064.
- Assets grew 4.2 percent, increasing from \$263.6 to \$274.6 billion.
- Loans grew 0.3 percent, increasing from \$174.1 to 174.6 billion.
- Shares grew 4.1 percent, increasing from \$231 to \$240.5 billion.
- Investments grew 13 percent, increasing from \$77.1 to \$87.2 billion.
- Capital to total asset ratio declined from 11.3 to 11.1 percent.
- Delinquency ratio remains 0.8 percent.
- Loan to share ratio declined from 75.4 to 72.6 percent.

The three major categories accounting for loan growth in large credit unions during the first quarter were:

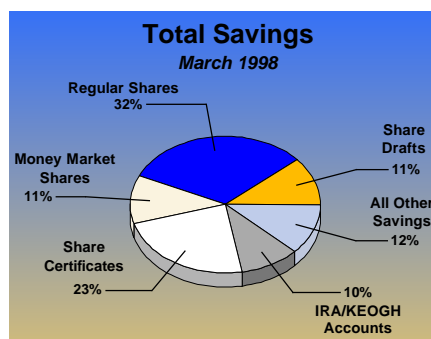
- 1<sup>st</sup> mortgage loans increased \$1.8 billion or 4 percent;
- Used auto loans increased \$794 million or 2.7 percent; and

- Other real estate loans increased \$32 million or 0.1 percent.

Total shares in the first quarter increased \$9.5 billion or 4.1 percent compared to first quarter 1997 growth of \$8.5 billion or 4 percent. Similar to the first quarter trends of previous years, larger credit unions reported growth as follows in the major share categories:

- Share drafts gained \$1.3 billion or 4.6 percent;
- Regular shares gained \$3.7 billion or 4.5 percent;
- Money market shares gained \$1.9 billion or 6.8 percent;
- Share certificates gained \$1.9 billion or 3.2 percent; and
- IRA/Keogh accounts gained \$0.3 billion or 1.1 percent.

Being flush with funds in the first quarter prepares credit unions for the increased lending activity that normally



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cycles later in the year. For the time being, the extra funds are invested. Over \$10 billion or 91 percent of asset growth in the first quarter was placed into investments, which grew from \$77.3 to \$87.2 billion in three months. Deposits in corporate credit unions increased a significant 33.2 percent, up from \$16 to \$21.3 billion. Investments in collateralized mortgage obligations decreased 2.6 percent.

### Ratio Adjustments

While capital gained \$686 million or 2.3 percent in the first quarter, the capital to asset ratio declined from 11.3 to 11.1 percent because assets grew faster than capital. Likewise, the net capital to total asset ratio, which tracks capital minus estimated losses, decreased from 10.7 to 10.5 percent because of larger asset growth.

Following historical trends, the loan to share ratio dropped in the first quarter from 75.4 to 72.6 percent as share growth outpaced loans.

**NCUA is Sponsoring EMPOWERMENT 2000 Training for Small Credit Unions**

## News Briefs

- **Appeals Court Delays Action** — May 28, 1998, the U.S. Court of Appeals granted a joint motion delaying further action in the AT&T case until September 1, 1998. This means the partial stay to the nationwide injunction, scheduled to expire May 26, remains in place and credit unions can continue to accept new members affiliated with existing employee groups.
- **Credit Union Bill Expected in July** — Capitol Hill sources indicate the Senate does not expect to consider the credit union bill, H.R. 1151, until after the July 4<sup>th</sup> recess, beginning June 29 and ending July 7.
- **Banks Withholding Financial Support** — Banking industry leaders are threatening to withhold campaign contributions to legislators who supported credit unions and financial reform, according to the *American Banker* newspaper. Banking trade groups plan to meet this fall to set a unified legislative strategy in preparation for the next Congress, the article reports.
- **Financial Reform Hearings Set** — Senate Banking Committee Chairman Alfonse D'Amato is holding a hearing June 17 on

financial reform legislation. This is the bank modernization bill crafted to allow mergers among bank, security, and insurance firms that squeaked through the House by a single vote in May.

- **District Court Action Delayed** — The District of Columbia U.S. District Court has agreed to stay proceedings concerning Point Mugu FCU until October 31 or 10 days after passage of credit union legislation. In this case, banks are challenging the credit union's conversion from multiple-group to community charter, alleging misuse of the "once a member always a member" policy, and that community boundaries were improperly drawn.

### Bankruptcy Reform Moves Forward

Both House and Senate Judiciary Committees have approved bankruptcy reform bills that would redress some of the balance between debtors and creditors involved in bankruptcy.

The House bill would impose a means test, forcing people at or above the median income level to forego Chapter 7 relief and instead file Chapter 13 bankruptcy, which requires a partial pay back of debt.

The Senate bill does not mandate the switch but allows the court to transfer bankruptcy filers from Chapter 7 to Chapter 13 if the court determines that debtors could repay 20 percent or more of their unsecured debts. Creditors may not request a transfer if the debtor's income is less than 100 percent of the national median income.

The House was expected to begin consideration of the bill during the week of June 8.

### Y2K Update

- NCUA staff has spoken to 12,000 people at over 200 functions about Y2K, what it is and how to prepare for a smooth transition to the new millennium.
- Within 30 days NCUA will be providing credit unions with a new Y2K brochure for members. Prepared in conjunction with the FFIEC, credit unions can provide this brochure to their members who want to know what Y2K is and how it could affect their account at the credit union.
- NCUA's Y2K website ([www.ncua.gov/news/year2000/year2000.html](http://www.ncua.gov/news/year2000/year2000.html)) now includes the informative Credit Union Executives Year 2000 Survival Guide.

- NCUA provided credit unions with the results of initial Y2K reviews of 10 information system vendors in NCUA Letter to Credit Unions No. 98-CU-11 released May 21, 1998. Additional on-site vendor reviews and follow-up contacts are being scheduled.

## Windows-Based PC5300 Program Updated

As the June 30 call report date approaches, the Office of Technology and Information Services (OTIS) is putting final touches on a new PC5300 Windows program for credit unions. Credit unions and examiners have tested the new program, and credit unions over \$50 million used it for the March 1998 reporting cycle. Both report the new Windows 5300 program is very successful.

The program's installation and operation have been simplified to enable it to run on a wider variety of Windows platforms — Windows 3.x, Windows 95, and Windows NT. More personal computer users should be able to accommodate the new PC5300 Windows version.

During the December 1997 cycle, 72 percent of all federally insured credit unions used one of the PC5300 programs to submit their call report data. More than 71 percent of them used the former Windows version while the remaining 29 percent used the DOS version of the program. With the improvements and positive results offered by the new Windows version of the PC5300 program, NCUA anticipates discontinuing the more cumbersome, less flexible DOS version after 1998. Credit unions are encouraged to use the PC5300 Windows program to report June data.

NCUA will provide a letter to credit unions, with more details, along with the 5300 reporting packages distributed to all federally insured credit union in mid-June. The 5300 reports are due back to NCUA by July 22.

### New Region IV Telephone Number

NCUA's Region IV office in the Chicago suburb of Lisle, IL, has a new telephone number. Effective June 8, the Region IV office telephone number is **630-955-4100** and the FAX number is **630-955-4120**.

## NCUA News

NCUA News is published by the National Credit Union Administration, the federal agency which supervises and insures credit unions.

**Norman D'Amours, Chairman**  
**Yolanda T. Wheat, Board Member**  
**Dennis Dollar, Board Member**

Information about NCUA and its services may be secured by writing to the Office of Public and Congressional Affairs, or by calling 703-518-6300. News of what is happening at NCUA is available by calling 800-755-1030 or 703-518-6339.

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## BOARD ACTIONS ON MAY 28, 1998

### NCUA Approves Charter Conversion

#### Glynn Teachers FCU

The NCUA Board approved, by a two to one vote, the conversion of \$46 million Glynn Teachers FCU, Brunswick, Ga., to a community-based charter that serves Glynn County, and bordering, low-income Brantley and McIntosh Counties.

#### Bristol Teachers FCU

The NCUA Board unanimously approved the conversion of \$39 million Bristol Teachers Federal Credit Union from multiple-group to a community charter.

The charter revision permits Bristol Teachers FCU to diversify its membership by offering financial service to the entire community of Bristol, Conn.

### Corporate Gains National FOM Authority

The NCUA Board unanimously approved the request from Mid-Atlantic Corporate FCU to expand, becoming the first corporate with a national field of membership.

Currently serving 1,173 credit unions, Mid-Atlantic is the first corporate credit union to gain nationwide operating authority under the National FOM Guidelines for corporate credit unions that NCUA adopted in December 1997.

NCUA analysis indicates that Mid-Atlantic Corporate has infrastructure and staff capable of serving credit unions on a national level. This expansion will allow the corporate to benefit from economies of scale.

### Operating Fund Results

In April, the NCUA Operating Fund received and placed into investments \$36.2 million as credit unions paid their 1998 operating fee assessments.

Operating expenses totaled \$4 million in April, \$631,000 below budget because of cost savings in employee pay, benefits, and travel.

## National Credit Union Share Insurance Fund Highlights

### *Equity Level Increases as Credit Unions Contribute Annual Adjustments*

The National Credit Union Share Insurance Fund equity level increased to 1.30 percent in April based on insured shares of \$294.3 billion at December 31, 1997. The equity ratio is expected to increase to 1.33 percent by December 31, 1998.

The Fund posted a \$164.5 million increase in investments during April, primarily due to credit unions submitting their annual one percent adjustments to the Fund.

Recoveries gained \$4.4 million due to new receivables established by the Asset Management & Assistance Center.



<http://www.ncua.gov>

Many publications including NCUA News are available to download directly from the NCUA web site.

## Wheat Shadows Examiners on the Job at Pentagon FCU

NCUA Board Member Yolanda Townsend Wheat spent a day "shadowing" examiners at Pentagon Federal Credit Union recently to find out more about how Board policies are put into action. "I was impressed by the depth and breadth of expertise required of NCUA examiners and the multitude of issues they deal with at credit unions of every size and level of complexity," Wheat said. She added that learning more about the details of the examination process helped her to gain a deeper appreciation for the challenges examiners face.



During a whirlwind day of training, Wheat examines Y2K readiness materials with Examiner in Charge Harry Herrmann. Wheat was walked through the loan review process, the general ledger and board minutes. She navigated through AIREs and brushed up on the disaster recovery and human resources policies. "Each examiner shared their areas of expertise, each unique and often complex task complimenting a strong team effort," Wheat said.

Wheat's supervisors for the day included (bottom row, left to right) Harry Herrmann, [Yolanda Wheat] Jon Kennedy, (top row, left to right) Robert McCauslin, Robert Jones and Russell Laubach. "What an impressive team to join for the day," Wheat remarked. "They were superb representatives of our examination force."

## ABOUT INVESTMENTS

# Broker/Dealer Due Diligence

The NCUA Investment Hotline often receives inquiries from credit unions about securities broker/dealers. Typical questions are:

- Is NCUA aware of any shady business history behind a particular company (i.e., brokerage and/or broker)?
- How can we find information on past regulatory violations, if any exists?
- What questions should we ask before doing business with a broker?

Responding to the first two questions, NCUA advises credit unions to call the National Association of Securities Dealers (NASD) and the applicable state securities regulator to check the history of securities brokers and dealers. NASD has a Public Disclosure Hotline, 800-289-9999, with information on specific brokers, and its website, [www.NASDR.com](http://www.NASDR.com), provides access to enforcement actions and gives guidance for contacting state regulators.

With respect to the third question, you may wish to review a 1994 report to the Securities Exchange Commission (SEC) on broker compensation entitled Report of the Commit-

tee on Compensation Practices. The report concludes that before doing business with a broker, ask the following questions:

- What is your experience and training?
- How many brokerage firms have you worked for?
- How many clients do you currently serve?
- How do you charge for your services? Commission or flat fee?
- How long have you been with this firm?
- Have you ever been disciplined for a violation of the securities laws?

The report also suggests you insist on the following performance standards:

- Courteous and timely service;
- Confidentiality;
- Clear and even handed explanations of costs and recommendations;
- Competency and professionalism;
- Clear and concise account statements;
- Prompt attention to all concerns; and
- Information regarding disciplinary record(s) on request.

Find the complete text of the report on the Internet at [www.sec.gov/news/studies/bkrcomp.txt](http://www.sec.gov/news/studies/bkrcomp.txt).

## Skiles Is Acting Executive Director



J. Leonard Skiles

James Leonard (Len) Skiles was selected May 28, 1998, to serve as acting executive director of NCUA for 60 days effective June 1, 1998. The Board also voted to begin the process of re-classifying this job for the option to fill the executive director position with a career employee.

As executive director, Skiles will manage the day-to-day operations of NCUA. A 25-year NCUA employee, Len Skiles has been serving as president of NCUA's Asset Management & Assistance Center in Austin since it was formed in 1990. He joined NCUA as a staff attorney in the General Counsel's office in 1973. Skiles was named NCUA deputy general counsel in 1975 and in September 1980 he was appointed director of the Region V office in Austin.

Prior to joining NCUA, Skiles served as an infantry commander, judge advocate and special court martial judge in the United States Marine Corps. He holds AB and JD degrees from the University of Georgia.

AMAC Deputy to the President Mike Barton will temporarily serve as acting president of the AMAC.

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